

'Tells the Facts and Names the Names' CounterPunch

FEBRUARY 15, 1995

Written by Ken Silverstein & Alexander Cockburn

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The Bad, the Ugly and the "Good"

Head Hunting at the World Bank

Nothing has obsessed the World Bank more in recent years than upgrading of its image, a Herculean task which has taken on all the more urgency due to the very successful "Fifty Years Is Enough" campaign, organized by the International Rivers Network. Already World Bank press releases gleam with boilerplate about "sustainable growth" and environmental "sensitivity".

The Bank's public relations effort appears to have deeply impressed the mainstream environmental movement. On Feb. 13 fax machines in Washington's enviro/bureaucratic complex disgorged a two-page letter addressed to Vice President Al Gore and signed by Jay Hair, head of the National Wildlife Federation, on behalf of fourteen other green chiefs. They included the CEOs at National Audubon, Natural Resources Defense Council, and Environmental Defense Fund, along with Lester Brown of Worldwatch. Also on the list were the Lawyers Committee for Human Rights and, sad to say, the Institute for Policy Studies, which has actively supported the "Fifty Years Is Enough" campaign.

The letter was sent in wake of the news that the World Bank's present head, former Morgan banker Lewis Preston, has cancer and will soon retire. After some unctuous phrases about Preston having "served his country well" as Bank president, the signatories advise that there is a risk "of losing momentum for the reform agenda", just when the Bank is "beginning to make progress on some of the most difficult aspects of successful development, including the participation of local people in the decisions which affect their lives." The letter winsomely concludes with the plea that "the new presi-

dent should be someone who will 'reinvent' the Bank, and bring it into line with modern concepts of development, including 'putting people first'."

A note accompanying the letter informed signatories that a minor change had been made to the statement as originally drafted: the phrase "against the ingrained indifference and bureaucratic inertia of the institution" — which had appeared at the end of a paragraph lauding Preston's courage in his supposed assault on the status quo — had been deleted "because of objections that it was not constructive to the letter."

Such toadying correspondence notwithstanding, there's been no change at the Bank, despite repeated promises of a commitment to perestroika in its procedures. By any measure of economic justice the best future for the World Bank would require demolition of its Washington hq and summary dispatch of its senior executives to live in one of the numerous Third World slums that they have been responsible for creating over the past generation.

The day after Gore was sent this letter, *The New York Times* carried a story on the World Bank's search to find a suitable figure to replace Preston. The short list includes investment banker James D. Wolfensohn, the Treasury Department's Lawrence Summers, and the IMF's deputy managing director, Stanley Fischer.

As his present position as head of the Kennedy Center and past tenure as trustee of the Rockefeller Foundation suggest, Wolfensohn is a conspicuous figure in the world of East Coast philanthropy. As for his candidacy, the prime asset of this Australian-born financier and social-

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Soul Brothers

"That's one of the great companies in American history. It is a very wonderful corporation; it does very interesting things."

— Rep. Newt Gingrich
lecturing students in his
college course, "Renewing
American Civilization,"
about Hewlett-Packard,
a company distinguished
among other things for its
munificent contributions
to Rep. Newt Gingrich.

It's Only Money:

Akin, Gump and the S&L Crash

Last year, **CounterPunch** reported that the Resolution Trust Corporation (RTC), the federal agency charged with cleaning up the S&L scandal, was suing Rep. Henry Hyde in connection with the bankruptcy of Clyde Federal, an Illinois thrift on whose board Hyde served. That case is still pending, and the mainstream press has demonstrated little interest in the fact that Hyde, the new head of the House Judiciary Committee, stands accused of negligence and breach of fiduciary duty.

Another powerful player implicated in the S&L debacle is Clinton's intimate, Robert Strauss, whose law firm of Akin, Gump represented some of the dirtiest of thrift crooks. Akin, Gump is, we have learned, being sued for \$44 million by the RTC over its role in the 1990 bankruptcy

of the San Jacinto Savings Association of Bellaire, Texas. The RTC's complaint charges that the law firm "aided and abetted a tortious scheme and was grossly negligent".

San Jacinto contracted Akin, Gump to serve as its outside legal counsel in the early Eighties. Between 1984 and 1990, Strauss's firm received \$2 million in fees from the S&L.

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The RTC's suit revolves around a \$25.75 million loan which San Jacinto granted in 1985 to Worldwide Purchasing, Inc. The company used the money to buy 131,000 acres of land in Tennessee, Kentucky and West Virginia.

Unfortunately for San Jacinto, Akin, Gump didn't bother to tell the S&L that 50,000 acres of Worldwide's new land belonged to the U.S. government, in the form of a coal deed. Because the company was unable to develop much of its property, and because the coal rights could not be sold to a third party, the loan failed. Worldwide's land was sold at foreclosure and the company failed to repay its loan.

Of course, no bank makes a loan without collateral. San Jacinto had prudently secured a guaranty of payment and performance for the Worldwide loan from AMI, Inc., a company owned and controlled by Herman Beebe — a man who, connoisseurs of financial scandal may recall, was a central figure in the S&L crisis. According to Stephen Pizzo, Mary Fricker and Paul Muolo, the authors of *Inside Job*, Beebe's "influence in banking circles was so pervasive by the mid-1980s that he could be connected in some way to almost every dying bank or savings and loan in Texas and Louisiana ... [He] built potentially the most powerful and corrupt banking network ever seen in the U.S."

Beebe's standard operating procedure was to acquire S&Ls and then use depositors' money to make loans to himself and his cronies. One of his closest associates was Judge Edmund Reggie, a Louisiana powerbroker, thrift owner, and father of Victoria Reggie, Ted Kennedy's wife.

In 1987, Beebe was indicted for fraud, in a case involving \$30 million in loans from more than a dozen financial institutions. All the money was borrowed by Richard Wolfe, who raised money from institutions in which Beebe enjoyed "influence," and then funnelled some of the money back to his patron.

Beebe initially called the case a "bunch of bull," but soon cut a deal, pleading guilty to two counts of bank fraud. He was sentenced to one year and a day in jail.

Akin, Gump was well aware that Beebe was a man of uncertain character. Though his more majestic crimes were still to come, Beebe had already been convicted of defrauding the Small Business Administration at the time that the Worldwide loan was approved.

Yet according to an internal company memorandum, Akin, Gump higher-ups told Steven Anderson, the lawyer advising San Jacinto, "to leave the AMI guaranties out of the closing binders because a guaranty by a company associated with H.K. Beebe would be a 'red flag' to the regulators." By the time the firm informed San Jacinto about the hidden document, AMI was in economic trouble and was unable to perform on its guaranty.

The RTC also charges Akin, Gump with involvement in several other bad loans made by San Jacinto, including one in which land was transferred between multiple parties during a short period of time. The sole purpose was to artificially increase the land's value, and, not incidentally, to increase the size of loan proceeds from San Jacinto as well. The Akin, Gump lawyer who advised the S&L on the loan "knew or reasonably should have known that an improper and artificial land flip was occurring for the purpose of obtaining an inflated loan from [San Jacinto]," the RTC suit alleges.

Akin, Gump is one of Washington's most well-connected firms. In addition to Strauss, its senior partners include presidential golfing partner Vernon Jordan. We await with interest demonstrations of how zealously the San Jacinto case will be pressed. ■

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Chase Memo Tumult:

Come Blow Our Horn

Our Feb. 1 report that Chase bank had called on the Mexican government to "eliminate" the Zapatistas in the name of investor stability caused an uproar in the U.S. and Mexico. For days, **CounterPunch** phones rang non-stop, with activists and journalists requesting urgent fax transmittal of our story and the Chase memo which contained the bank's suggestion.

Organizers brandished the memorandum at demonstrations in Los Angeles, San Francisco, Seattle, New York, and other cities. The story was covered by everyone from *Final Call*, which is published by the Nation of Islam, to *The Washington Post*.

On Capitol Hill, Rep. Marcy Kaptur (D-Ohio) held a press conference to denounce the bank. "Suggesting the killing of innocent people, throwing elections — none of this seems to bother Chase," said Kaptur, who called the memo an "amazing, troubling document." She added that "anyone who honestly believed that Wall Street's hands weren't all over [the Clinton bail-out] should take a good hard look at this memo."

Similar uproar took place in Mexico after *Proceso*, a major news weekly, carried a Feb. 13 story about **CounterPunch's** disclosures. Zapatista officials in the U.S. say that publication of the Chase memo was "a turning point," in that it was the first hard evidence which directly linked Wall Street to Mexico's economic and political crisis.

Chase tried a variety of tactics in seeking to defuse the ensuing PR nightmare. First the bank insisted that the whole thing had resulted from a copy editing error, and that Chase had intended to call for the elimination of the "Zapatista threat," not the Zapatistas. This tactic fell flat. Chase officials then placed sole responsibility for the fiasco on the document's author, Riordan Roett. In a terse official communique, Chase said that the opinions expressed in the memo "represent [Roett's] personal views as a scholar. They were not meant to nor do they represent the views of Chase." As

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(Though his most spectacular blunder, this was not the first time Roett made a fool of himself in his role as omniscient advisor. Last year, he informed financial reporters that Venezuela would probably default on its Brady bonds. This prediction, which proved to be false, caused hysteria among investors when it was carried on the AP-Dow Jones wire.)

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A final note: The Mexico City daily, *El Financiero*, reports that the former president of Mexico, Carlos Salinas de Gortari, has accepted an offer to join the board of directors of Dow Jones & Co., publisher of *The Wall Street Journal*. The offer comes at an opportune moment for Salinas, whose U.S.-backed bid to head the World Trade Organization lies in ruins amid the crash of the Mexican economy. Salinas's role on the Dow Jones board will be, in the words of *El Financiero*, "to utilize strategic information accumulated during his mandate ... to benefit the lords of financial speculation."

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(World Bank, continued from p. 1)

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The second, well-publicized contender to head the bank is Summers, the Harvard *wunderkind* now at the Treasury Department as assistant secretary in charge of international finance. Summers is probably best known as the former chief economist and vice president of the World Bank who suggested, in a memo leaked to the press in early 1992, that Third World countries need more pollution, not less, and that cancer-causing industries located in the South pose no problems since shorter life expectancies there render inconsequential the

risk of cancers occurring late in life.

This laconic display of the moral inner life of a Harvard economist did little for Summer's reputation. Nor is the arrogant Summers popular in the new Congress. Along with the third candidate, Stanley Fischer, and with Ted Truman, staff director for international finance at the Fed, Summers was a major promoter of the Mexican bail-out.

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Though a like-minded dark horse may yet emerge, these are the men who would lead the Bank into the next century.

The "reform" crowd would also do well to examine development strategies now being formulated by the World Bank and the IMF. At the heart of this enterprise lies the figure of Paul Volcker, who headed the Bretton Woods Commission on the future of these two institutions and shaped its final report issued last year.

The role of the IMF remains, in the gleeful words of one of the Commission's contributors, that of the world's "bad cop", disciplining errant nations that depart from the orthodox macro-economic policies customarily prescribed by the Fund, and which are responsible for so much misery in the world today. The World Bank "should continue to address some very broad questions that affect national economic policymaking," the Commission stated blandly, adding that these questions intrude into a number of

areas — governance, military expenditures, economic and social rights — in which the Bank might stand accused of "infringing [upon] national sovereignty".

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The advantage of beefing up these two agencies is that the Bank's articles would not have to be changed, thus averting the awful possibility of democratic intrusion by Congress into the institution's procedures. Since the Bank's International Development Authority is funded by taxpayer dollars, its policies are open to congressional review.

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